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Staff Report
June 12, 2018

TO:	Honorable Mayor and Members of the Town Council
FROM:	Roger Carroll, Finance Director
DATE:	May 24, 2018
RE:	Proposal to pay down the Unfunded Pension Liability at CalPERS

Recommendation
Adopt Resolution paying down the CalPERS unfunded liability by $692,422 and adopt a 20-year amortization schedule for the remaining balance.

Issue Statement and Discussion
The Town has, as of June 30, 2018, an estimated unfunded liability with the California Public Employee Retirement System (CalPERS) of $1,270,083. The unfunded liability is the difference between the value of pension benefits earned, less the deposits paid by the Town into the retirement system.

This difference is created by basically two events:

1. The difference between the CalPERS investment goals and the actual earnings, and
2. Changes made to the actuarial assumptions of CalPERS, such as life expectancies increasing.

Each year the difference between investment goals and actual earnings are calculated. Changes to actuarial assumptions occur less often. Either create a benefit (asset) or a liability.

Here are the important things to understand:

1. Each year's changes are tracked and paid down separately over 20 to 30 years.
2. Ramping: In order to avoid a big "hit" as each year's differences are added into the liability, CalPERS "ramps" up the payment over five years. Unfortunately, additional interest is added to the liability so that it actually increases for the first five years, rather than being paid down. This is what is known as negative amortization.
3. On the current schedule, paying off the unfunded liability over the next 30 years, the Town will pay $1,602,147 interest in addition to the $1,270,083 balance, totaling $2,872,230.

If we stay on the current schedule, because of the "ramping" provisions and the negative amortization, the annual payments will increase from $58,628 this year to $106,126 in 2022 and $147,761 in 2031. It will be 2037 before our annual payments are below $100,000 again.

Here is a solution: Attachment B, "Schedule of Plan's Side Fund and Other Amortization Bases," shows the various line items that make up our unfunded liability. I have marked an asterisk next to each of the lines that is still in the "ramp up" (negative amortization) phase. If we were to combine and pay off these line items we would maximize the use of the positive lines and avoid the negative amortization of the negative lines. The combined cost of these line items would be $692,422.

Furthermore, if we combine the remaining line items, we could adopt a 20-year amortization schedule, but pay it off in less than ten years by simply paying it down $100,000 per year (see Attachment D). Bear in mind, if we change nothing, we will be paying $100,000 to $147,000 per year for over fifteen years.

Here is a chart that shows the differences in the payment schedules:

	Current Schedule	As Ammended
Principal	1,270,083	1,270,083
Interest	1,602,147	292,744
Total	2,872,230	1,562,827
Savings:	1,309,403	

Finally, we should consider the value of financing the unfunded liability: would it be better to keep the cash and earn income on it while paying down the liability over time? No. We are currently earning 2.5% to 3.25% on our investment portfolio while CalPERS uses a 4.5% to 7.5% rate to charge interest on the liability. It is costing the Town a net 2% to 5.25% to finance this debt.

<u>CEQA Requirements</u>

There are no CEQA issues.

<u>Financial and/or Policy Implications</u>

The funding for the lump sum payment of $692,422 would come from current and prior year excess revenues designated as General Fund Operating Reserves. The ongoing payments of $100,000 would be included in future operating budgets.

<u>Attachments</u>

A. Resolution
B. Schedule of Plan's Side Fund and Other Amortization Bases.
C. Current 30-Year Amortization Schedule and Alternatives.
D. Proposed 30-Year Amortization Schedule and Alternatives.

Attachment A

TOWN OF LOOMIS

RESOLUTION NO. 18-

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOOMIS AUTHORIZING THE TOWN MANAGER TO PAY DOWN THE UNFUNDED LIABILITY WITH THE CALIFORNIA PUBLIC EMPLOYEE RETIREMENT SYSTEM

WHEREAS, the Town has contracted with the California Public Employee Retirement System (CalPERS) to provide retirement benefits for the employees of the Town of Loomis; and

WHEREAS, the Town is obligated to deposit the actuarially determined value of future benefits to CalPERS; and

WHEREAS, changing actuarial assumptions and actual investment experience have created a deficit in the Town's funding of the benefits of $1,268,580; and

WHEREAS, paying down the unfunded liability (debt) can save the Town's taxpayers more than 1.3 million dollars in interest expense over the life of the debt.

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Town Council of the Town of Loomis does hereby:

1. Authorize the Town Manager to execute the necessary documents to pay down the unfunded liability by $692,422 and combine the remaining liabilities into one 20-year amortization schedule.
2. Amend the 2017-2018 Operating Budget to include payment of the $692,422 to be funded from current and past Excess General Fund Revenue Reserves.

PASSED AND ADOPTED this 12th day of June 2018 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

____
Mayor

ATTEST:

____
Town Clerk

Attachment B

Schedule of Plan's Side Fund and Other Amortization Bases

There is a two-year lag between the valuation date and the start of the contribution fiscal year.

- The assets, liabilities, and funded status of the plan are measured as of the valuation date: June 30, 2016.
- The employer contribution determined by the valuation is for the fiscal year beginning two years after the valuation date: Fiscal Year 2018-19.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their employer contribution well in advance of the start of the fiscal year.

The Unfunded Accrued Liability (UAL) is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The UAL is rolled forward each year by subtracting the payment on the UAL for the fiscal year and adjusting for interest.

							Amounts for Fiscal 2018-19	
Reason for Base	Date Established	Amortization Period	Balance 6/30/16	Payment 2016-17	Balance 6/30/17	Payment 2017-18	Balance 6/30/18	Scheduled Payment for 2018-19
SIDE FUND	2013 or Prior	8	$(48,169)	$(6,009)	$(45,495)	$(6,189)	$(42,437)	$(6,329)
SHARE OF PRE-2013 POOL UAL	06/30/13	19	$359,888	$26,357	$359,118	$27,148	$357,472	$27,626
ASSET (GAIN)/LOSS	06/30/13	27	$505,012	$13,799	$527,958	$21,319	$544,804	$28,853
NON-ASSET (GAIN)/LOSS	06/30/13	27	$(4,788)	$(131)	$(5,005)	$(202)	$(5,165)	$(274)
ASSET (GAIN)/LOSS	06/30/14	28	$(364,429)	$(5,126)	$(385,994)	$(10,559)	$(403,520)	$(16,067)
NON-ASSET (GAIN)/LOSS	06/30/14	28	$388	$5	$411	$11	$430	$17
ASSUMPTION CHANGE	06/30/14	18	$225,071	$4,287	$237,228	$8,831	$245,573	$13,494
ASSET (GAIN)/LOSS	06/30/15	29	$212,775	$0	$228,467	$3,217	$241,983	$6,522
NON-ASSET (GAIN)/LOSS	06/30/15	29	$(16,902)	$0	$(18,149)	$(256)	$(19,222)	$(518)
ASSET (GAIN)/LOSS	06/30/16	30	$256,357	$0	$275,264	$0	$295,564	$4,097
NON-ASSET (GAIN)/LOSS	06/30/16	30	$(30,881)	$0	$(33,158)	$0	$(35,604)	$(493)
ASSUMPTION CHANGE	06/30/16	20	$72,864	$(2,843)	$81,183	$(2,928)	$90,205	$1,700
TOTAL			**$1,167,186**	**$30,339**	**$1,221,828**	**$40,392**	**$1,270,083**	**$58,628**

The (gain)/loss bases are the plan's allocated share of the risk pool's (gain)/loss for the fiscal year as disclosed on the previous page. These (gain)/loss bases will be amortized according to Board policy over 30 years with a 5-year ramp-up.

If the total Unfunded Liability is negative (i.e., plan has a surplus), the scheduled payment is $0, because the minimum required contribution under PEPRA must be at least equal to the normal cost.

Attachment B

30-Year Amortization Schedule and Alternatives

			Alternate Schedules			
	Current Amortization Schedule		20 Year Amortization		15 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2018	1,270,083	58,628	1,270,083	94,942	1,270,083	115,521
6/30/2019	1,303,000	75,423	1,265,371	97,790	1,244,046	118,987
6/30/2020	1,320,942	85,593	1,257,360	100,724	1,212,498	122,557
6/30/2021	1,329,668	97,236	1,245,718	103,746	1,174,924	126,233
6/30/2022	1,326,973	106,123	1,230,087	106,858	1,130,769	130,020
6/30/2023	1,314,871	109,306	1,210,078	110,064	1,079,433	133,921
6/30/2024	1,298,577	112,585	1,185,271	113,366	1,020,270	137,939
6/30/2025	1,277,684	115,963	1,155,213	116,767	952,580	142,077
6/30/2026	1,251,750	127,460	1,119,414	120,270	875,611	146,339
6/30/2027	1,211,991	131,284	1,077,346	123,878	788,547	150,729
6/30/2028	1,165,336	135,222	1,028,436	127,594	690,514	155,251
6/30/2029	1,111,160	139,279	972,067	131,422	580,565	159,909
6/30/2030	1,048,785	143,457	907,576	135,364	457,682	164,706
6/30/2031	977,480	147,761	834,242	139,425	320,764	169,647
6/30/2032	896,456	145,390	751,292	143,608	168,629	174,737
6/30/2033	811,914	142,744	657,891	147,916		
6/30/2034	723,878	137,080	553,137	152,354		
6/30/2035	635,219	130,948	436,058	156,924		
6/30/2036	546,376	124,324	305,610	161,632		
6/30/2037	457,845	76,630	160,662	166,481		
6/30/2038	412,205	75,858				
6/30/2039	364,000	78,134				
6/30/2040	309,881	80,478				
6/30/2041	249,342	68,791				
6/30/2042	196,449	67,206				
6/30/2043	141,297	59,178				
6/30/2044	90,396	42,838				
6/30/2045	52,673	25,464				
6/30/2046	30,171	23,356				
6/30/2047	8,194	8,491				
Totals		**2,872,230**		**2,551,123**		**2,148,573**
Interest Paid		**1,602,147**		**1,281,040**		**878,491**
Estimated Savings				**321,106**		**723,655**

* This schedule does not reflect the impact of adopted discount rate changes that will become effective beyond June 30, 2016. For Projected Employer Contributions, please see Page 5.

30-Year Amortization Schedule and Alternatives

	Current Amortization Schedule		Alternate Schedules: 15 Year Amortization		Alternate Schedules: 10 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2018	693,250	42,820	693,250	63,055	693,250	86,009
6/30/2019	700,006	50,489	679,038	64,947	655,253	88,589
6/30/2020	699,314	58,580	661,818	66,895	611,781	91,247
6/30/2021	690,187	62,195	641,309	68,902	562,348	93,984
6/30/2022	676,640	65,974	617,208	70,969	506,433	96,804
6/30/2023	658,179	67,954	589,188	73,098	443,473	99,708
6/30/2024	636,305	69,992	556,895	75,291	372,860	102,699
6/30/2025	610,705	72,092	519,948	77,550	293,939	105,780
6/30/2026	581,041	74,255	477,935	79,876	206,006	108,953
6/30/2027	546,949	76,482	430,413	82,273	108,299	112,222
6/30/2028	508,034	78,777	376,904	84,741		
6/30/2029	463,871	81,140	316,890	87,283		
6/30/2030	414,003	83,574	249,817	89,902		
6/30/2031	357,935	86,082	175,083	92,599		
6/30/2032	295,133	81,860	92,043	95,377		
6/30/2033	232,074	77,308				
6/30/2034	169,081	69,681				
6/30/2035	109,345	61,527				
6/30/2036	53,654	52,821				
6/30/2037	2,877	2,981				
6/30/2038	0	0				
6/30/2039	0	0				
6/30/2040	0	0				
6/30/2041	0	0				
6/30/2042	0	0				
6/30/2043	0	0				
6/30/2044	0	0				
6/30/2045	0	0				
6/30/2046	0	0				
6/30/2047	0	0				
Totals		**1,316,585**		**1,172,757**		**985,994**
Interest Paid		**623,335**		**479,507**		**292,744**
Estimated Savings				**143,828**		**330,591**

* This schedule does not reflect the impact of adopted discount rate changes that will become effective beyond June 30, 2016. For Projected Employer Contributions, please see Page 5.